

Argentina: At the Crossroads

Philip A. Shull, Agricultural Counselor, U.S. Embassy, Argentina

Good Afternoon, ladies and gentlemen. It is an honor to be here to talk about the crisis in Argentina. After witnessing the events of the past months, and talking with many dozens of people, including all levels of officials, analysts, traders, farmers large and small, -- and taxi drivers-- who are the true font of all earthly and spiritual knowledge-- it is clear that by far the most prudent thing for me to do is to say nothing at all, and to thank you for your invitation.

I have entitled my talk, "Argentina: At the Crossroads" because I am convinced this is a critically important juncture in Argentine history. However, things are so uncertain in Argentina at the moment that firm predictions or projections on the future of anything from agricultural output to interest rates, to the health of the middle class, is folly. Things have changed and are changing so quickly, that looking at any one day is like looking at one frame from a Charlie Chaplin movie. This frame shows the pie in his hand, poised to strike. We don't know if the next one shows his target being hit, the target ducking so he hits the person behind, or whether he puts the pie in his own face.

First, I'd like to give you a brief historical background on the country and this crisis. We've just heard from Isi Saddiqui about India and it's 1 billion consumers. Argentina is the same size geographically, but has a population of just 37 million. If you place it on North America, it stretches from Cuba to Hudson Bay. If you place it in Europe, it stretches from the Sahara to Scotland. It is a resource-rich country with a well educated population.

Argentina has a glorious past. Indeed, one of the most painful aspects of the current crisis, along with the serious economic hardships it has brought, is the injury to national pride. Argentinians are keenly aware that theirs was among the ten wealthiest countries in the world during the first third of the 20th century.

It has been a long, hard fall. Two events more recently bear strongly on the current crisis. First was the hyper-inflation of the late 1980's. Depending on what base years one uses, inflation reached several thousand percent. Prices literally changed while one shopped in the store, or between salad and dessert while dining in a restaurant. The chaos the period wrought is etched indelibly on the

souls of every Argentine, and is a fundamental fear of the current government.

The second event was President Carlos Menem's answer to hyper-inflation in 1991, which was to peg the peso to the dollar at 1:1, in a policy known as, "Convertability." The success of this policy combined with privatization of many government industries such as energy and communications, earned the government lots of money, international kudos, billions in foreign investment, and an almost unlimited line of credit from the international financial community-which the government used, and many now say, abused.

However, because of the dollar-peso peg, the last half of the 1990's saw the peso appreciate in value along with the dollar, without doing anything to earn that appreciation in terms of higher productivity or efficiency-or by cutting spending. Argentina thus became increasingly less competitive. The Asian financial crisis and the depreciation of the Brazilian Real finally pushed the economy into recession in 1998. The key point here is that the current crisis in Argentina which has thrust it to the center of the world stage did not start just with the peso devaluation and the resignation of President de la Rúa last December. The air has been slowly leaking from that economy for the past four years.

As an example, between 1991 and today, the unemployment rate has risen from 6% to an estimated 30% today.

Another of the great uncertainties and concerns caused by the devaluation is what will happen to inflation. The economy is being hit by a toxic combination of deflationary and inflationary pressures. High unemployment, the restrictions on withdrawing savings, steep wage cuts, and the increasing difficulty in using credit cards (due to credit companies' long delays in paying vendors), have drained the liquidity of the economy and are strongly deflationary. On the other hand, the steep and sudden devaluation has increased the peso price of all tradeables, including agricultural and energy products, which affect virtually everything else. There is also the strong FEAR of high inflation, which in itself can lead consumers to act in ways which are inflationary. Thus, at least some inflation will take place-- and at a time when it will be most harmful.

The one thing on which there is general consensus is that soybean and wheat production will increase, and that the government will likely impose some type of export tax on agricultural products.

In the very few minutes I have left, let me try to encapsulate the main reasons why so many citizens are banging pots in the streets. The catalyst was the government move to restrict access to people's

savings. They've done this in a series of ways, the most recent of which has had the effect of freezing real estate sales. This, in turn led real estate companies to put up hundreds of "For Sale" signs on the wall around the President's home. This spectacle creates the powerful triple entendre of a) expressing this sector's frustration, b) refers to the widely alleged corruption of Argentine politicians that they are all "For Sale," and c) says they want to see President Duhalde replaced."

But they are also venting about the high unemployment rate, which has exacted a painful human toll, and also led to a crime rate that has been estimated as high as 33%. Another key element is the expression of frustration about the way officials are elected, and the Argentine system of political patronage that makes the old Chicago machine look positively amateurish.

Argentina does not have direct democracy. Instead people must vote for parties-a straight ticket. Because candidates and patronage are assigned by the party, it is to the party a representative's loyalties lie, not to the "constituents" of his or her district. In the past election, this frustration reached such a level that 40% of voters-a large plurality-invalidated their ballots by writing in the name of San Martin-Argentina's George Washington. The winner of the election received 20% of the vote.

Second is the infamous system of "gnocchis." Under this system, officials above a certain rank can appoint "advisors" to paid, LIFETIME positions, at times very highly paid positions, for which they do little or no work. In many cases, they do not even have offices. They only come to work on payday, the traditional day for eating gnocchis.

The Argentines also have a joke which makes fun of this system. A recently elected "deputado" offered his friend's 16-year old son an "advisor" position for \$10,000 per month. When the friend said this was too much, the deputado offered another for \$6,000. When the friend again repeated his objection, the deputado replied in frustration, "Well, the only other is for \$800 a month, but he'd have to come to work every day and needs a PhD for that one!"

Let me close with a quote from a 1961 article I came across by the Argentine author, Tomas Fillol, which speaks poignantly down the decades the following,

"Why, then, economic stagnation? Why the failure to recover? Why the appearance and popular support of demagogues? Why ill-conceived economic policies, dictatorship, and the pernicious state intervention in all sectors of the nation's life? There is no community in

Argentina. We do not form a body... We behave as if each one were unique and as if he were alone, with the unfortunate consequences which result when that is the situation. The hand knoweth not what the head thinketh, the mouth ignoreth the stomach, etc... Each organ believes itself the whole, and functions as if it were more important than the whole. Is there any more succinct definition of sickness? Who is to blame? No one. Everyone."

Shakespeare said the same thing more concisely. "The fault, Dear Brutus, lies not within our stars, but in ourselves."

Personally, I am optimistic about Argentina. It has all the tools, all the resources, and all the excellent people it needs to succeed. That, of course, is in the interests of us as well as them. But the next few months-which path they take at this critical crossroads-will be critical.

Thank you for your attention. I look forward to your questions, and shall attempt to address them with the same crystal clarity and defined certainty as I have given you on the future of Argentina's economy.

Thank you.